

Date: August 23, 2013
To: Milton Dohoney, Jr., City Manager
From: Lauren Sundararajan, CFE, Internal Audit Manager *LS*
Copies to: Reginald Zeno, Finance Director
Kenneth Glenn, Director of Citizen Complaint and Internal Audit
Subject: **Procurement Card Program Audit**

Attached is the Procurement Card (P-Card) Program Audit report. The primary objectives of this audit were to verify internal controls are in place and operating effectively, maximize cost savings provided by p-card use, and ensure p-cards are not being misused. We have completed the report in accordance with Internal Audit's (IA) Fiscal Year 2013 and 2014 Work Plan.

We would like to thank the Finance Department staff for their assistance and cooperation during this audit.

If you need any further information please contact me.

Attachment

Procurement Card Program Audit

August 2013



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Executive Summary

Internal Audit (IA) performed an audit of the City of Cincinnati's procurement card (p-card) program. The audit objectives were to verify internal controls are in place and operating effectively, maximize cost savings provided by p-card use, and ensure p-cards are not being misused.

P-cards offer a quick and efficient means of making business purchases. Studies show that the use of a p-card typically saves \$63 per transaction.¹ Efficiencies include the cost of vendor maintenance, purchase orders, wages of employees that process payments, and resources for writing checks. Because of this, IA recommends promoting and expanding the p-card program to its maximum capacity by increasing the use of p-cards throughout the City.

Although the audit revealed that expenditures appear to be reasonable, several issues related to internal controls were identified. Some of the p-card program's deficiencies include insufficient segregation of duties, inadequate policies and procedures, a lack of oversight, and deficient security features. If uncorrected, these issues increase the risk of misuse of public funds within the City.

Segregation of duties is a key concept of internal controls that helps prevent fraud and error. IA found several instances where duties were not segregated appropriately. For example, the p-card program administrator is responsible for maintaining p-card accounts, yet has a p-card and serves as the department approving official (DAO). Additionally, some DAOs have p-cards, preventing proper oversight.

Policies and procedures provide a valuable management control for p-card operations. IA found the p-card policies and procedures need a comprehensive review and update. Several ambiguities and gaps in the policies and procedures caused interpretation issues for departments. Additionally, many employees involved with the p-card program have not received training since 2008.

To prevent against fraud and abuse, the p-card program must have various security measures in place and operating effectively. IA identified several security features that could improve the p-card program. These recommendations include periodic reviews of restricted merchants, additional oversight by the Purchasing Division, and regular reviews and updates of bank records.

¹ www.napcp.org

I. Introduction

Background

In 2008 the Purchasing Division of the Finance Department initiated a city-wide procurement card (p-card) program, and made p-cards available for City departments to use. P-cards provide a simple method for departments to make purchases using City funds. The objective of the p-card program is to improve budget controls and efficiencies for small dollar purchases. This program reduces overhead costs and time delays related to individual decentralized purchases.

The City of Cincinnati has a contract with U.S. Bank to service the p-card program, with Visa as the payment processor. The program provides City departments with two account options: a p-card or a ghost card. The p-card operates similar to a credit card which can be swiped or used to make online transactions, but it is generally restricted from making travel purchases. These typically have lower spending limits and lower monthly credit limits. The ghost card is a card number issued to the employee for making online purchases, but it is not an actual card. The ghost card is intended to be used exclusively for travel and training. Due to the nature of the expenses incurred, ghost cards typically have higher credit limits than the p-cards.

The p-card program administrator in the Purchasing Division is the centralized contact with U.S. Bank. The p-card program administrator sets up new users, trains departments, and serves as the liaison between the departments and the bank. Each participating department has at least one department approving official (DAO) that oversees p-card and ghost card activity for their department. They also serve as the liaison between their department and the p-card program administrator.

Currently almost every City department utilizes the p-card. As of April 2013, there were a total of 145 active p-card accounts. There were 115 p-card users and 30 ghost card users among 18 participating departments. In 2012, the City spent approximately \$1.9 million in p-card purchases.

Audit Selection

The audit was conducted in accordance with the fiscal year 2013 and 2014 internal audit workplan.

Audit Objectives

The primary objectives of this audit were to verify internal controls are in place and operating effectively, maximize cost savings provided by p-card use, and ensure p-cards are not being misused.

Audit Scope and Methodology

This audit encompassed Finance Department staff, records, and systems related to p-card processes; in addition to city p-card users and their respective supervisors. The transaction dates covered by this audit were between October 1, 2012 and March 31, 2013.

To accomplish the objectives of this audit, Internal Audit (IA) used the following methods: interviewed city staff, examined p-card tracking systems, reviewed purchasing policies, and reviewed practices of other cities.

Statement of Auditing Standards

As required by Article II, Section 15 of the City of Cincinnati Administrative Code, this audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS), except for standard 3.96 pertaining to external peer review requirements. This exception did not have a material effect on the audit. Audit fieldwork was performed between April and June of 2013.

Commendations

Internal Audit commends the Finance Department staff on their cooperation throughout the audit.

II. Audit Findings and Recommendations

The p-card program lacks segregation of duties.

Segregation of duties is an important internal control for preventing fraud and abuse. Internal Audit (IA) found an irregularity in the p-card program administration. Some departments forward required forms and receipts directly to the Accounts and Audits Division to review and process the transaction. However, many departments submit this information to the Purchasing Division, which is then forwarded to the Accounts and Audits Division. To properly segregate duties, the Purchasing Division cannot be involved in processing purchases.

The p-card program administrator serves as the primary liaison between the City and U.S. Bank. These responsibilities include opening new accounts, setting transaction limits, and restricting merchants for all p-card accounts. IA found that the p-card program administrator also has a p-card and a ghost card, and serves as the DAO for the Finance Department. This arrangement creates a high risk of execution and concealment of fraud. In order to effectively segregate duties, the p-card program administrator cannot be involved in making purchases or overseeing purchases of others.

IA found that 10 of the 25 DAOs have a p-card. DAOs are responsible for reviewing and processing p-card transactions; therefore segregation of duties does not exist if the DAO also has a p-card.

Recommendation 1: The Accounts and Audits Division should receive p-card purchase information directly from the departments, rather than passing through the Purchasing Division.

Recommendation 2: The p-card program administrator should not be allowed to make p-card purchases. In addition, the administrator's DAO responsibilities should be reassigned to someone else in the Finance Department.

Recommendation 3: DAO responsibilities should be separated from those of cardholders. Therefore, DAOs should not be allowed to make p-card purchases.

Additional oversight is needed.

In order for the p-card program to be efficient and effective, proper oversight and internal controls are necessary. The p-card policies and procedures outline steps to achieve proper oversight; however, IA found that DAOs do not perform these responsibilities as intended. Many DAOs do not perform weekly reconciliations, and some DAOs have not been through the required U.S. Bank online training. While the Purchasing Division relies on DAOs to oversee the cardholders in their department, it is the responsibility of the Purchasing Division to administer and monitor the performance of the program. Spot checks, training logs, and quality testing are steps needed for the Purchasing Division to effectively administer the p-card program.

In addition, the p-card policies and procedures require DAOs to verify approval of purchases. The policy is vague, and DAOs verify approval differently in each department. IA found that one department requires approval to be in writing, which provides a strong internal control. Obtaining written verification and maintaining that in the DAO's records enhances the DAO's ability to provide proper oversight.

Recommendation 4: The Purchasing Division should closely manage DAOs to ensure that proper oversight is maintained. This includes performing regular spot checks of DAOs' records, maintaining a training log, and sampling transactions to verify compliance with policies and procedures.

Recommendation 5: The Purchasing Division should require DAOs to ensure that p-card users obtain written approval by a supervisor immediately after the purchase is made.

Policies and procedures are not consistently followed.

The p-card policies and procedures are designed to prevent fraud and abuse. After sampling p-card purchases, IA noted that expenditures generally appear legitimate and in the ordinary course of business. However, IA identified a few instances of noncompliance. Cardholders are required to forward receipts to their DAO, which are then forwarded to the Accounts and Audits Division. Although minimal, IA noted 23 missing receipts out of the six month sample. Additionally, IA found a few receipts that did not substantiate what was purchased. While the purchase amount was stated, it failed to list the items or services that were purchased as required. Form PC106 (Record of P-card Purchases) can be used to substantiate purchases. Continued failure to substantiate purchases increases the risk for fraud and abuse.

Additionally, IA also found that p-card purchases were used to circumvent other purchasing guidelines. A policy exists stating all IT purchases are to be submitted to Enterprise Technology Solutions' (ETS). IA found that IT purchases were made with a p-card, but were not submitted to ETS, circumventing the required permissions. Cardholders and DAOs require knowledge of all relevant policies, including p-card, purchasing, and those of other City departments.

Recommendation 6: Form PC106 should be required to be completed by the cardholder and the DAO each month.

Recommendation 7: DAOs should ensure that p-card policies and other city regulations are followed.

P-card policies and procedures do not reflect current p-card program processes.

Thorough policies and procedures increase management's ability to provide guidance and oversight. In addition to the findings and recommendations included in this report, several instances of redundancy, ambiguity, and vagueness exist in the p-card policies and procedures. Policies that may be expanded include the following: activating new p-cards, renewing expired p-cards, creating maximum credit balances, and reimbursing disallowed sales tax or inappropriate charges.

IA also found several policies that are not followed or enforced because they do not reflect the current operating processes. These obsolete policies include performing audits of pilferable inventory, performing a semi-annual inventory of p-cards, and DAOs remitting p-cards of terminated employees to the Purchasing Division. While noncompliance with these policies does not pose a significant threat to the p-card program, selective enforcement of policies sets bad precedent. Updating the policies and procedures to improve functionality is crucial to the success of the p-card program.

Recommendation 8: The Purchasing Division should perform a comprehensive review of the p-card policies and procedures and update them as needed.

P-card program training is needed.

Training is beneficial for educating employees on the responsibilities and expectations bestowed upon them. The Purchasing Division requires DAOs and cardholders to attend two training sessions for the p-card program: A U.S. Bank online training course and a training course hosted by the Purchasing Division. Many participants were included in the initial training in 2008, but were not retrained, even when policies were updated in 2010. Updated policies and procedures are recommended in this report, which presents an ideal opportunity to train cardholders on the new policies and procedures.

Recommendation 9: The Purchasing Division should train all cardholders and DAOs when the p-card policies and procedures are updated. Training should also be available if requested by departments as a refresher course.

P-card technology should be used more.

U.S. Bank online systems provide customizable p-card activity reports such as historical spending, account changes, and rejected card swipes. These reports are valuable for analyzing spending, identifying trends, and mitigating fraud. IA found that these reports aren't currently utilized. Since the Accounts and Audits Division is responsible for reviewing and processing purchases, they would benefit most by utilizing this information to its full potential.

Recommendation 10: The Accounts and Audits Division should utilize U.S. Bank online systems for generating reports and performing analytical testing.

Exception reports are not used.

The policies and procedures state that the purchasing manager will oversee the p-card program and ensure the program is executed in accordance with the policies and procedures. IA found that the purchasing manager is involved with some aspects of the p-card program, but the duties of the p-card program administrator are not properly managed. Currently, adjustments are communicated to the manager; however, more effective oversight can be achieved by utilizing exception reports. Exception reports are computer generated reports that show adjustments made to critical fields in the U.S. Bank online system. Exception reports also allow the purchasing manager to become more involved in the p-card program by identifying errors, evaluating account adjustments, and preventing the concealment of fraud.

Recommendation 11: The Purchasing Division manager should utilize exception reports to manage and review critical changes made to the p-card program.

Purchasing Division records are not up to date.

To efficiently and effectively manage the p-card program, administrative records should be maintained and up to date. While reviewing Purchasing Division records, IA found that the list of

p-card users was not up to date. The list of p-card users contained several former p-card users, and several current users were not on the list. In addition, a p-card authorization form (PC101) is required for all p-card assignment requests; however, authorization forms were incomplete for 7 of the 145 active p-card accounts. Additionally, an authorization form (PC100) is required for assigning DAOs, yet authorization forms were missing for more than half of the current DAOs.

While examining these documents, IA noticed that if an employee has a p-card and a ghost card, the authorizations for both were filled out on the same form. This could indicate that the second card was requested and given without going through the proper channels of authorization since only one director signature was given. For each p-card or ghost card request, a separate authorization form should be completed. Continuing the current practice bypasses the intended internal controls.

Recommendation 12: The Purchasing Division should maintain records of p-card user information, rosters of p-card users and DAOs, and all required authorization forms.

Recommendation 13: The Purchasing Division should require separate authorization forms (Form PC101) be completed when more than one card is requested for an employee.

Bank records are not up to date.

The p-card program administrator manages all user accounts and information in the U.S. Bank online system. To efficiently and effectively manage the p-card program, the information must be current and accurate. IA found that employment terminations of two p-card users in 2011 were not updated in the bank system, and their accounts were still open. Additionally, there was one user that had two active p-cards. These errors indicate that communication issues exist between City departments and the Purchasing Division. Failure to deactivate accounts timely increases the risk of fraudulent charges.

Recommendation 14: The Purchasing Division should close all redundant accounts, and update records promptly in the future.

Recommendation 15: The Purchasing Division should routinely meet with DAOs as a means to improve communication between City departments and the p-card program administrator.

Merchant category code restrictions have not been reviewed.

Merchant category code (MCC) restrictions are an important security feature that helps prevent p-card fraud and abuse. All vendors are assigned a MCC, and the bank automatically blocks attempts of p-card purchases if the vendor is classified under a restricted MCC. The City and U.S. Bank initially created a high risk restriction list to block merchants that would not be used in the ordinary course of business. This high risk restriction list is applied to each p-card upon issuance. The high risk restriction list contains only 9 MCCs, which include wire transfers, massage parlors, antiques, casinos, and jewelry stores, among others. It appears that the 9 high risk MCC restrictions were set during the infancy of the p-card program, and have not been reviewed since then.

P-card accounts are supposed to have the high risk MCC restrictions when issued. They can be edited when necessary to allow purchases. Of the 145 p-card accounts, 36 do not have the high

risk restrictions. Additionally, p-cards are supposed to be used for non-travel expenses, whereas ghost cards are to be used exclusively for travel. It appears that 117 of the 145 accounts are not set up with the respective travel restrictions.

Recommendation 16: The Purchasing Division should consider expanding the high risk merchant category code restrictions placed on each card.

Recommendation 17: The high risk merchant category code restrictions should be applied to all p-card accounts.

Recommendation 18: The Purchasing Division should review and update merchant category code restrictions for every p-card account on an annual basis.

The p-card program can be expanded.

The p-card allows departments to purchase small dollar goods quickly and conveniently while cutting administrative costs. According to the National Association of Purchasing Card Professionals, p-cards typically save the organization \$63 per transaction. IA found two departments that do not participate in the p-card program. Additionally, several large departments only have one p-card user, even though other employees in the department make purchases through traditional means. Maximizing p-card use would create additional savings internally. Additionally, increased p-card use is incentivized in the contract with U.S. Bank, in which higher annual spending leads to volume rebates and lower contractual costs.

Another potential benefit of p-cards is that they reduce the need for petty cash funds. Petty cash transactions expend more City resources and take longer to process than p-card transactions. Currently most City departments have a petty cash fund as well as a p-card. Reducing petty cash transactions decreases the risk of theft, eliminates the cost of additional check writing, and reduces processing time.

Recommendation 19: The Purchasing Division should encourage departments to use p-cards for all applicable purchases, including recurring expenses such as utility bills and membership dues.

Recommendation 20: As the City considers the expansion of the p-card program, the Finance Department should research the costs and benefits of reducing petty cash funds.

Bank contract has not been re-bid since 2004.

Typically the Purchasing Division bids out contracts on a regular basis. IA found that the bank contract was awarded in 2004, amended in 2007, but has not been through the competitive bidding process since it was awarded. The contract terms are open, meaning there is no expiration and no scheduled renewal. Long term contracts should be periodically evaluated to take advantage of changes in the business climate.

Recommendation 21: The Purchasing Division should bid this contract out through the competitive bidding process.

III. Conclusion

By providing a quick and convenient method of purchasing, reducing transaction costs, and reducing overhead; p-cards provide a superior means of purchasing than traditional methods. Although this audit revealed that expenditures appear to be reasonable, many internal control weaknesses were identified. If unfixed, these weaknesses could lead to misuse and fraud. Recommendations for the p-card program to accomplish its objectives include revising policies and procedures, training p-card program participants, segregating duties, enhancing oversight and security, and maximizing use of p-cards. The benefits of using p-cards to streamline the procure-to-pay process could result in significant savings if administered properly.

IV. Finance Department Response

Recommendation 1: The Accounts and Audits Division should receive p-card purchase information directly from the departments, rather than passing through the Purchasing Division.

Department Response: Agree. The Purchasing Division provides the upfront guidance and assistance on p-card purchases made by the Departments (i.e. merchant code changes, exceptions to limits). Once the purchases are made, the next step is the payment of said charges. This is in line with the responsibilities of the Accounts and Audits Division. Initially, at the beginning of the program, the p-card program administrator assisted certain DAOs by screening payments requests prior to submission to the Accounts and Audit Division. As the DAOs have become more experienced, this is no longer necessary.

Recommendation 2: The p-card program administrator should not be allowed to make p-card purchases. In addition, the administrator's DAO responsibilities should be reassigned to someone else in the Finance Department.

Department Response: Agree. The program administrator's p-card and Ghost Card are being cancelled. The Finance DAO responsibilities have been reassigned.

Recommendation 3: DAO responsibilities should be separated from those of cardholders. Therefore, DAOs should not be allowed to make p-card purchases.

Department Response: Partially agree. Separation of duties is an important function in the achievement of a successful p-card program. Minimal staffing levels citywide, particularly in small departments, have contributed to the necessity of some departments to utilize current staff in multiple roles. Pages 19 and 20 of the p-card manual describe the responsibilities of the DAO. In those instances where it is determined that such separation of duties is not practical, the Finance Department will require the DAO's supervisor or the Department Head to review and approve the DAO's monthly cardholder statement.

Recommendation 4: The Purchasing Division should closely manage DAOs to ensure that proper oversight is maintained. This includes performing regular spot checks of DAOs' records, maintaining a training log, and sampling transactions to verify compliance with policies and procedures.

Department Response: Partially agree. The Finance Department will hold semi-annual meetings with DAOs to specifically review program policies and procedures (see Recommendation 15 response). The City as a whole operates under a decentralized system of procurement. Each department has internal controls and procedures in place that make sense for their particular line of business. In addition, all original records that are necessary to be compliant with the p-card program and the City's record retention policies are currently housed in the Finance Department.

Recommendation 5: The Purchasing Division should require DAOs to ensure that p-card users obtain written approval by a supervisor immediately after the purchase is made.

Department Response: Agree. The Finance Department is revising the p-card policies and procedures to outline the specific paperwork required to document purchases. For example, similar to the regular purchase process, for IT purchases made with a p-card, cardholders must obtain Enterprise Technology Solutions (ETS) approval via the established process and attach the written IT approval form to the PC106. Failure of a cardholder to provide the required documentation to the DAO will result in the cardholder losing access to the p-card. Finance will continue to closely review all documentation submitted by departments on a monthly basis and require certification from Department Heads on any purchases that do not have proper documentation. All documentation that substantiates purchases is currently housed in the Finance Department.

Recommendation 6: Form PC106 should be required to be completed by the cardholder and the DAO each month.

Department Response: Agree.

Recommendation 7: DAOs should ensure that p-card policies and other city regulations are followed.

Agree: The Finance Department's website is regularly updated as new policies and regulations are put in place. In addition, information is sent to several City distribution lists (CFS users, City Accounting staff, city-wide mailing list, etc.) to communicate new and existing policies, such as the ETS approval process, Administrative Regulation 60 (Printing Services & Stores Policy and Procedures), travel policies, no-certification limits, etc. Ultimately however, department directors are responsible for insuring that purchases are made consistent with administrative regulations, p-card policies and other purchasing guidelines.

The Finance Department will continue to work with the DAOs and will disseminate all current policies in place at the beginning of each fiscal year and communicate any changes or new policies as they become effective.

In addition, the policies and procedures will be amended to detail the necessary documentation that must be included with the monthly submission to Accounts and Audits.

Recommendation 8: The Purchasing Division should perform a comprehensive review of the p-card policies and procedures and update them as needed.

Department Response: Agree. A review is in process and is continuous, based upon lessons learned from experience with the p-card program. The Finance Department will update the p-card manual and include relevant and current information of the policies and procedures as related to the program. The manual will be reviewed regularly to ensure it is up-to-date with current policies and procedures.

Recommendation 9: The Purchasing Division should train all cardholders and DAOs when the p-card policies and procedures are updated. Training should also be available if requested by departments as a refresher course.

Department Response: Agree. Monthly meetings were held with DAOs to review changes made in 2010. The Finance Department is currently updating the policies and procedures manual. Finance is also looking at additional, enhanced online training as a tool for DAOs and cardholders. A p-card FAQ section will be added to the Finance Departments internal website. The Finance Department will also work with Human Resources to schedule classes as a part of the Human Resource Development Academy (HRDA).

Recommendation 10: The Accounts and Audits Division should utilize U.S. Bank online systems for generating reports and performing analytical testing.

Department Response: Agree. The p-card program administrator and staff in Accounts and Audits currently have access to these reports on the US Bank website. Reports are run on an as needed basis to address specific issues, such as suspected fraud, declined swipes, to determine which cards are actively being used and at year end to determine if sales tax has been paid. Finance Department staff is trained in this area and provides oversight. The Finance Department will however work with US Bank to expand access and training where appropriate.

Recommendation 11: The Purchasing Division manager should utilize exception reports to manage and review critical changes made to the p-card program.

Department Response: Agree. The Purchasing Division Manager currently reviews and approves all requests for dollar limit changes, outside the normal scope of the program. In addition, the program administrator regularly communicates with the Purchasing Division Manager about the program. As a senior staff member in the Purchasing Division, the program administrator is tasked with making system changes, such as merchant restrictions, new accounts, and billing addresses, without prior authorization from the Purchasing Division Manager.

In the future exception reports will be run and approved by the Purchasing Division Manager which will account for all critical changes made to provide for a formal audit trail.

Recommendation 12: The Purchasing Division should maintain records of p-card user information, rosters of p-card users and DAOs, and all required authorization forms.

Department Response: Agree. New forms were requested for all cardholders and DAOs, beginning July 1, 2013 (FY14) and will be updated annually at the beginning of each fiscal year.

At implementation, several departments indicated their DAO designations by email to the Purchasing Division Manager/Program Administrator so forms were not completed for these departments. In addition, changes in staff are not always communicated and the person assuming the accounting functions becomes the de-facto DAO before the Finance Department is aware of the change.

The Finance Department will communicate with departments to make sure they are in full compliance with the policies and that any new staff be identified immediately and trained before assuming the responsibilities of a DAO.

Recommendation 13: The Purchasing Division should require separate authorization forms (Form PC101) be completed when more than one card is requested for an employee.

Department Response: Agree. Separate forms are now required for P-Card/Ghost cards and require a Director signature for both.

Recommendation 14: The Purchasing Division should close all redundant accounts, and update records promptly in the future.

Department Response: Agree. All redundant accounts are removed. When a fraud alert is placed on an account, there is a temporary period that two accounts for the same cardholder will appear open. Once US Bank completes their investigation, the account that was reported as fraud is closed.

Recommendation 15: The Purchasing Division should routinely meet with DAOs as a means to improve communication between the City departments and the p-card program administrator.

Department Response: Agree. The Program Administrator regularly communicates with DAOs in different departments for limit changes, exceptions to merchant codes and general questions. However, it is agreed that at least semi-annual meetings are needed with the DAOs, Purchasing and Accounts and Audits staff to go over any changes to policies, updated procedures and to answer general questions regarding the program.

Recommendation 16: The Purchasing Division should consider expanding the high risk merchant category code restrictions placed on each card.

Department Response: Partially agree. All p-cards receive, at issuance, the standard, high risk merchant code group listings restrictions identified by US Bank. However, after a cardholder begins to use their card in accordance with their business needs, these restrictions often have to be lifted in order to allow them to make their purchases.

The restricted merchant codes are currently set up categorically versus by line items within each category. The Finance Department will identify individual line items within each category that should be blocked to ensure additional safety features on the p-cards. For example, category MCCG39 is listed as "High Risk I" for specialty items; the category includes twenty-four individual line items or merchant codes. Line items in this category used by departments in 2012 include photography equipment, stationery/office supplies, miscellaneous specialty retail (such as Segway of Cincinnati and Kiesler Police Supply), and memberships/subscriptions (under the line item "miscellaneous personal services").

Usage of the p-card varies greatly from each department as their business needs differ. The Finance Department will work with Department Heads to identify those areas that can be restricted without precluding them from making necessary purchases on the p-cards assigned.

While the restrictions provide enhanced security, it is not the intent of the program to become overly restrictive and deter cardholders from using it in the course of business.

Recommendation 17: The high risk merchant category code restrictions should be applied to all p-card accounts.

Department Response: Disagree. (Also see response to Recommendation 16). Default merchant category code restrictions are placed on all cards at issuance. However, after a cardholder begins to use the card in accordance with business needs, these restrictions often have to be lifted in order to allow the cardholder to make purchases within the scope of a business purpose.

These default restrictions will continue to be placed on new cardholder accounts and only lifted when the Department Head identifies a business need/justification for such. These instances will be documented and reviewed annually with the Department Head and Purchasing staff.

Putting standard restrictions on all cards would be counter-productive to the program and Recommendation 19, expansion of the P-Card program.

Recommendation 18: The Purchasing Division should review and update merchant category code restrictions for every p-card account on an annual basis.

Department Response: Agree. The Purchasing Division will review merchant code restrictions with Department Heads on an annual basis.

Recommendation 19: The Purchasing Division should encourage departments to use p-cards for all applicable purchases, including recurring expenses such as utility bills and membership dues.

Department Response: Agree. This is already being done by the Finance Department for small dollar purchases under \$3,000. In addition, departments are encouraged to put all memberships and subscription purchases on their p-card. Should it be determined that the program expand, Finance will work internally and with departments to determine those items that would be beneficial and practical. However, use of the p-card for payment of utility bills (as suggested in the report) is problematic as Duke Energy currently has a charge of \$12.95 for use of credit or debit cards that would also be applied to p-cards.

Recommendation 20: As the City considers the expansion of the p-card program, the Finance Department should research the costs and benefits of reducing petty cash funds.

Department Response: Agree. Since p-cards are to be used only by the card holder it would not be advisable to change those guidelines to have a department wide petty cash p-card. We believe the petty cash funds still have a viable business purpose for those departments that maintain them. As the p-card usage expands, the Finance Department will work with Department Heads to determine if elimination of petty cash funds is appropriate for their department operations.

Recommendation 21: The Purchasing Division should consider bidding this contract out through the competitive bidding process.

Department Response: Agree. The current contract resulted from a competitive proposal (RFP) process. The Finance Department agrees that it is time for a new RFP to be issued to renew the p-card program (take advantage of any new developments in the industry, new industry standards, etc.). The Finance Department is currently compiling the necessary data to issue an RFP.